

ANALYSIS OF K-16 FUNDING INITIATIVE



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Revised March 8, 2006

Initiative: Article II, Section 9 of the Michigan Constitution of 1963

- Requires petitions signed by registered electors equal to not less than eight percent of the total vote cast for all candidates for Governor at the last preceding general election at which a Governor was elected.
- In the 2002 General Election, 3,177,565 votes were cast for all candidates for Governor. Eight percent equals 254,206.
- Any law proposed by initiative petition (that is certified by the State Board of Canvassers) shall be either enacted or rejected by the Legislature without change or amendment within 40 days from the time such petition is received in the office of the Secretary of the Senate and Clerk of the House.

- Proposed laws that are not enacted within 40 days are submitted to the people for approval or rejection at the next general election.
- If the Legislature rejects an initiative petition, the Legislature may propose a different measure on the same subject. Both measures are then submitted to the electors for approval or rejection at the next general election. If two or more measures approved by the electors at the same election conflict, the measure receiving the highest affirmative vote prevails.
- Initiated laws adopted by the people at the polls can not be amended or repealed except by a vote of the electors unless otherwise provided in the initiative measure or by a three-fourths vote of the members elected to and serving in each house of the Legislature. (Note: Initiated laws enacted by the Legislature can be amended by a majority vote of the members of each house at a subsequent legislative session.)

- The K-16 Funding Initiative Petitions were filed with the Secretary of State on February 21, 2006.
- There is no provision in the Election Code that allows for submitted initiative petitions to be withdrawn.

Content of K-16 Funding Initiative

A sum sufficient is appropriated from the School Aid Fund (SAF) to pay for the requirements of the K-16 Funding Initiative; any deficiency in SAF revenue is appropriated from the General Fund.

K-12

- For FY 2006-07, total funding for the School Aid Act (hereafter referred to as "the Act") shall not be less than the total funding appropriated in FY 2004-05 adjusted by the increase in the U.S. Consumer Price Index (6.2%).
- For years subsequent to FY 2006-07, total funding for the Act is guaranteed to increase by at least the annual increase in the U.S. Consumer Price Index.

K-12 (continued)

- In addition to a total funding guarantee, individual pieces of the Act are guaranteed to increase: Basic Foundation Allowance, Proposal A Obligation Payment, Discretionary Payment, At-Risk, Special Education, and Intermediate School District (ISD) General Operations funding. Similar to the total funding guarantee, these individual pieces are given inflationary increases from FY 2004-05 levels to FY 2006-07, and in subsequent years are increased by at least the annual increase in the U.S. Consumer Price Index.
- A declining enrollment provision is included if a district's three-year average pupil membership yields a higher number than a district's actual pupil membership for a given fiscal year. A district would be paid foundation allowances for the higher number of pupils.

K-12 (continued)

- Finally, a closing of the foundation allowance gap is provided beginning in FY 2006-07. By 2011-2012, the State funding gap between the basic foundation allowance and the maximum foundation allowance must be decreased to \$1,000. At the current time, the gap between the basic and what is commonly referred to as the "state maximum" foundation allowance (i.e., the point at which State funding for a foundation ceases and hold harmless mills are levied) sits at \$1,300. Decreasing this gap to \$1,000 would mean closing it by \$300 between FY 2006-07 and FY 2011-2012. The petition does not state how this is to be accomplished; it could be done in one year, over several years, or over the entire six years.

Higher Education

- For FY 2006-07, total funding for higher education shall not be less than the total funding appropriated in FY 2004-05 (provided in Public Act 352 of 2004) adjusted by the increase in the U.S. Consumer Price Index (6.2%).
- For years subsequent to FY 2006-07, total funding for higher education is guaranteed to increase by at least the annual increase in the U.S. Consumer Price Index.
- The minimum funding guarantee refers to the total funding appropriated in the higher education appropriation bill. The language has no impact on the mix of funding among the universities or the distribution of funding between the universities and the financial aid programs also appropriated in this budget.

Community Colleges

- For FY 2006-07, total funding for community colleges shall not be less than the total funding appropriated in FY 2004-05 (provided in Public Act 358 of 2004) adjusted by the increase in the U.S. Consumer Price Index (6.2%).
- For years subsequent to FY 2006-07, total funding for community colleges is guaranteed to increase by at least the annual increase in the U.S. Consumer Price Index.
- The minimum funding guarantee for community colleges refers to the total funding appropriated in the community college appropriation bill. The language has no impact on the distribution of funding among community colleges.

Retirement Contributions to the Michigan Public School Employees' Retirement System (MPERS)

- Each school district, community college, or participating public university would be responsible for paying into the MPERS the lesser of 80.0% of the total percentage points (determined by the Office for Retirement Services to fund retiree health and pension benefits) or 14.87%, applied to the schools' and colleges' salaries. The General Fund would pay the difference between what the schools' and colleges' required payments to the system would be under the Act, and the actual percentage points necessary to fund the retirement system.

Fiscal Impact of K-16 Funding Initiative on Governor's FY 2006-07 State Budget Recommendation

Table 1

K-16 FUNDING INITIATIVE CHANGES TO GOVERNOR'S FY 2006-07 GF/GP BUDGET RECOMMENDATION (millions of dollars)	
<u>Operational</u>	
K-12 Appropriations*	\$96.3
Higher Education Appropriations	53.1
Community College Appropriations	<u>16.3</u>
Subtotal Operations	\$165.7
<u>Public School Employees Retirement System Payments:</u>	
K-12 School Districts	\$354.9
Higher Education	5.1
Community Colleges	<u>20.2</u>
Subtotal Retirement Payments	\$380.2
Total State GF/GP Budget Impact	\$545.9
<p>*Note: The estimated cost for K-12 Appropriations assumes using non-guaranteed funding in the K-12 budget as a partial offset for the guaranteed funding in the initiative. In other words, existing and new program funds (e.g., Adult Ed, School Readiness, or K-3 Math and Science Literacy Grants) are used to offset the costs found in the specific funding guarantees required in the initiative. However, if the K-16 costs were simply added <i>on top of</i> the Governor's School Aid budget as proposed, then the costs of funding all of the Governor's initiatives <i>plus</i> the K-16 requirements would be \$271.3 million instead of the \$96.3 million listed above for K-12 (or \$340.7 million total among K-12, Higher Education, and Community Colleges, rather than \$165.7 million).</p>	

**K-16 FUNDING INITIATIVE
PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM
POTENTIAL STATE GF/GP COSTS IN FY 2006-07
(millions of dollars)**

Fiscal Year	Total Contribution Rate	Local School District Share	State GF/GP Share	State GF/GP Cost
2006-07	17.74%	14.19%	3.55%	\$380.2

Recent State Appropriation History

Table 2

STATE APPROPRIATION HISTORY (millions of dollars)				
Fiscal Year	Adjusted Gross	Total State Spending	General Fund/ General Purpose	K-16 Total State Spending
1994-95	\$27,523.5	\$19,593.2	\$8,176.4	\$9,546.4
1995-96	28,493.9	20,521.9	8,449.4	9,903.9
1996-97	29,656.5	21,552.3	8,363.1	10,320.4
1997-98	31,472.8	22,493.6	8,735.1	11,143.9
1998-99	33,160.3	23,276.8	9,415.0	11,381.4
1999-2000	35,417.7	24,579.0	9,607.7	12,040.8
2000-01	36,953.3	25,761.6	9,744.6	12,967.9
2001-02	38,751.3	26,086.8	9,189.3	13,486.6
2002-03	39,553.1	26,020.5	8,830.9	13,490.4
2003-04	39,115.3	25,802.5	8,770.1	13,038.8
2004-05	39,908.6	26,285.3	8,702.8	13,130.8
2005-06	40,860.8	27,504.7	8,981.6	13,380.3
2006-07 Gov's. Rec.	41,882.5	27,992.4	9,252.9	13,735.2
Dollar Change				
FY 2006-07 from FY 1994-95	\$14,359.0	\$8,399.2	\$1,076.5	\$4,188.8
Percentage Change				
FY 2006-07 from FY 1994-95	52.2%	42.9%	13.2%	43.9%
Source: Senate Fiscal Agency				

Table 3

K-16 STATE APPROPRIATION HISTORY VERSUS U.S. CONSUMER PRICE INDEX (millions of dollars)		
Fiscal Year	K-16 Total State Spending	U.S. Consumer Price Index
1994-95	\$9,546.4	144.5
1995-96	9,903.9	148.2
1996-97	10,320.4	152.4
1997-98	11,143.9	156.9
1998-99	11,381.4	160.5
1999-2000	12,040.8	163.0
2000-01	12,967.9	166.6
2001-02	13,486.6	172.2
2002-03	13,490.4	177.1
2003-04	13,038.8	179.9
2004-05	13,130.8	184.0
2005-06	13,380.3	188.9
2006-07 Gov's. Rec.	13,735.2	195.3
Dollar Change		
FY 2006-07 from FY 1994-95	\$4,188.8	50.8
Percentage Change		
FY 2006-07 from FY 1994-95	43.9%	35.2%
Source: Senate Fiscal Agency		

Table 4

MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM RECENT HISTORY EMPLOYER CONTRIBUTION RATES (millions of dollars)			
Fiscal Year	Covered Wages	Total Rate	Local Contribution
1994-95	\$7,460.5	14.21%	\$1,060.1
1995-96	7,764.9	14.56	1,130.6
1996-97	8,043.7	15.17	1,220.2
1997-98	8,226.0	11.12	914.7
1998-99	8,581.5	10.77	924.2
1999-2000	9,138.6	11.66	1,065.6
2000-01	9,357.8	12.16	1,137.9
2001-02	9,760.8	12.17	1,187.9
2002-03	10,022.4	12.99	1,301.9
2003-04	10,043.7	12.99	1,304.7
2004-05	10,094.4	14.87	1,501.0
2005-06 ^{a)}	10,397.2	16.34	1,698.9
2006-07 ^{a)}	10,709.1	17.74	1,899.8
a) Senate Fiscal Agency estimates			

Fiscal Impact of K-16 Funding Initiative Assuming FY 1994-95 Effective Date

Table 5

K-12 SCHOOL AID FUND APPROPRIATION HISTORY INDEXED TO GROWTH IN U.S. CONSUMER PRICE INDEX (millions of dollars)			
Fiscal Year	State Spending Appropriations	Growth Equal to CPI	Difference
1994-95	\$7,911.8	\$7,911.8	\$0.0
1995-96	8,221.9	8,117.5	104.4
1996-97	8,558.3	8,344.8	213.5
1997-98	9,307.4	8,595.1	712.3
1998-99	9,495.1	8,792.8	702.3
1999-2000	9,957.6	8,933.5	1,024.1
2000-01	10,732.3	9,130.1	1,602.2
2001-02	11,220.6	9,440.5	1,780.1
2002-03	11,334.6	9,704.8	1,629.8
2003-04	11,108.3	9,860.1	1,248.2
2004-05	11,113.5	10,086.9	1,026.6
2005-06	11,364.6	10,359.2	1,005.4
Source: Senate Fiscal Agency			

Table 6

BASIC FOUNDATION ALLOWANCE HISTORY INDEXED TO GROWTH IN U.S. CONSUMER PRICE INDEX			
Fiscal Year	Basic Foundation Allowance	Growth Equal to CPI	Difference
1994-95	\$5,000	\$5,000	\$0
1995-96	5,153	5,130	23
1996-97	5,308	5,274	34
1997-98	5,462	5,432	30
1998-99	5,462	5,557	(95)
1999-2000	5,700	5,646	54
2000-01	6,000	5,770	230
2001-02	6,500	5,966	534
2002-03	6,626*	6,133	493
2003-04	6,626*	6,231	395
2004-05	6,700	6,375	325
2005-06	6,875	6,547	328
*Reflects estimated \$74 per-pupil proration. Source: Senate Fiscal Agency			

Table 7

HIGHER EDUCATION APPROPRIATION HISTORY INDEXED TO GROWTH IN U.S. CONSUMER PRICE INDEX (millions of dollars)			
Fiscal Year	Adjusted Gross Appropriations	Growth Equal to CPI	Difference
1994-95	\$1,383.0	\$1,383.0	\$0.0
1995-96	1,429.0	1,419.0	10.0
1996-97	1,499.9	1,458.7	41.2
1997-98	1,561.5	1,502.4	59.1
1998-99	1,604.3	1,537.0	67.3
1999-2000	1,786.0	1,561.6	224.4
2000-01	1,910.6	1,596.0	314.6
2001-02	1,945.8	1,650.2	295.6
2002-03	1,844.9	1,696.4	148.5
2003-04	1,653.7	1,723.6	(69.9)
2004-05	1,723.0	1,763.2	(40.2)
2005-06	1,734.4	1,810.8	(76.4)
Source: Senate Fiscal Agency			

Table 8

COMMUNITY COLLEGE APPROPRIATION HISTORY INDEXED TO GROWTH IN U.S. CONSUMER PRICE INDEX (millions of dollars)			
Fiscal Year	Adjusted Gross Appropriations	Growth Equal to CPI	Difference
1994-95	\$251.6	\$251.6	\$0.0
1995-96	253.0	258.1	(5.1)
1996-97	262.2	265.4	(3.2)
1997-98	275.0	273.3	1.7
1998-99	282.0	279.6	2.4
1999-2000	297.2	284.1	13.1
2000-01	325.0	290.3	34.7
2001-02	320.2	300.2	20.0
2002-03	310.9	308.6	2.3
2003-04	276.8	313.6	(36.8)
2004-05	294.3	320.8	(26.5)
2005-06	281.3	329.4	(48.1)
Source: Senate Fiscal Agency			

Table 9

MICHIGAN PUBLIC SCHOOL EMPLOYEES RETIREMENT SYSTEM LIMIT LOCAL CONTRIBUTION TO 80% OF TOTAL CONTRIBUTION RATE (millions of dollars)			
Fiscal Year	Total Contribution	Local Contribution	State Contribution
1994-95	\$1,060.1	\$848.1	\$212.0
1995-96	1,130.6	904.5	226.1
1996-97	1,220.2	976.2	244.0
1997-98	914.7	731.8	182.9
1998-99	924.2	739.4	184.8
1999-2000	1,065.6	852.4	213.1
2000-01	1,137.9	910.3	227.6
2001-02	1,187.9	950.3	237.6
2002-03	1,301.9	1,041.5	260.4
2003-04	1,304.7	1,043.7	260.9
2004-05	1,501.0	1,200.8	300.2
2005-06	1,698.9	1,359.1	339.8
Source: Office of Retirement Services and Senate Fiscal Agency			

Table 10

K-16 FUNDING INITIATIVE: INCREASED FUNDING NEEDED IF IN EFFECT FROM FY 1994-95 TO FY 2005-06 (millions of dollars)					
Fiscal Year	K-12	Community Colleges	Universities	MPSERS	Total
1994-95	\$0.0	\$0.0	\$0.0	\$0.0	\$0.0
1995-96	0.0	5.1	0.0	226.1	231.2
1996-97	0.0	3.2	0.0	244.0	247.2
1997-98	0.0	0.0	0.0	182.9	182.9
1998-99	157.2	0.0	0.0	184.8	342.0
1999-2000	0.0	0.0	0.0	213.1	213.1
2000-01	0.0	0.0	0.0	227.6	227.6
2001-02	0.0	0.0	0.0	237.6	237.6
2002-03	0.0	0.0	0.0	260.4	260.4
2003-04	0.0	36.8	69.9	260.9	367.6
2004-05	0.0	26.5	40.2	300.2	366.9
2005-06	0.0	48.1	76.4	339.8	464.3
Source: Senate Fiscal Agency					

**Potential Adjustments to Governor's FY 2006-07
State Budget Recommendation
Assuming Passage of K-16 Funding Initiative**

Table 11

FISCAL IMPACT OF K-16 FUNDING INITIATIVE ON GOVERNOR'S FY 2006-07 BUDGET RECOMMENDATION (millions of dollars)	
Additional GF/GP Appropriations from K-16 Initiative	\$545.9
Governor's GF/GP Appropriation Recommendation	9,252.9
Less Appropriations Not Reduced:	
State Building Authority Debt Service (Rent)	(237.7)
Treasury Debt Service	(76.2)
Higher Education	(1,585.0)
Community Colleges	(287.2)
GF/GP Grant to School Aid Fund	<u>(35.0)</u>
Subtotal	(2,221.1)
Remaining GF/GP Appropriations	7,031.8
K-16 Costs as % of Remaining Appropriations	7.76%
Source: Senate Fiscal Agency	

Table 12

GENERAL FUND/GENERAL PURPOSE FY 2006-07 CHANGES TO GOVERNOR'S RECOMMENDATION			
Department/Budget Area	FY 2006-07 Governor's Recommendation	7.784% Reduction	Revised Appropriations
Agriculture	\$30,062,500	(\$2,333,752)	\$27,728,748
Attorney General	32,896,000	(2,553,716)	30,342,284
Capital Outlay	2,200	(171)	2,029
Civil Rights	12,454,000	(966,804)	11,487,196
Civil Service	6,972,400	(541,267)	6,431,133
Community Colleges	287,129,400	0	287,129,400
Community Health	3,001,975,800	(233,043,381)	2,768,932,419
Corrections	1,865,555,000	(144,823,035)	1,720,731,965
Education	6,667,500	(517,598)	6,149,902
Environmental Quality	33,328,400	(2,587,284)	30,741,116
Executive	5,375,500	(417,300)	4,958,200
Higher Education	1,585,040,700	0	1,585,040,700
History, Arts, and Libraries	42,800,200	(3,322,580)	39,477,620
Human Services	1,190,896,700	(92,449,311)	1,098,447,389
Judiciary	160,125,400	(12,430,535)	147,694,865
Labor and Economic Growth	47,436,700	(3,682,511)	43,754,189
Legislature	124,673,900	(9,678,435)	114,995,465
Management and Budget (Operations)	273,409,600	(2,771,973)	270,637,627
Military Affairs	40,640,200	(3,154,899)	37,485,301
Natural Resources (Operations)	25,119,600	(1,950,035)	23,169,565
School Aid	35,000,000	0	35,000,000
State	19,132,700	(1,485,272)	17,647,428
State Police	255,298,700	(19,818,838)	235,479,862
Transportation	0	0	0
Treasury (Debt Service)	76,243,700	0	76,243,700
Treasury (Operations)	61,542,700	(4,777,560)	56,765,140
Treasury (Revenue Sharing)	1,071,400	(83,173)	988,227
Treasury (Strategic Fund)	32,009,200	(2,484,874)	29,524,326
TOTAL APPROPRIATIONS	\$9,252,860,100	(\$545,874,302)	\$8,706,985,798

Table 13

MAJOR TAXES: ESTIMATED PER UNIT YIELDS FY 2006-07 (millions of dollars)			
Tax	Current Tax Rate	Increase in Tax Rate	Revenue Amount*
State Education Tax	6 mills	1 mill	\$351.4
Income Tax	3.9%	0.1%	170.5
Sales Tax	6.0%	0.1%	113.1
Use Tax	6.0%	0.1%	25.1
Single Business Tax	1.9%	0.1%	101.9
Cigarette Tax	\$2/pack	\$0.10/pack	54.8
Casino Tax	12.1%	1.0%	12.4
Real Estate Transfer Tax	0.75%	0.1%	41.1
*Reflects a full fiscal year impact. Source: Senate Fiscal Agency			